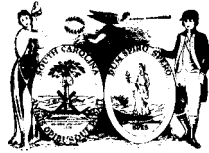


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

April 17, 2003

Ms. Carol Disbro, Director of Reimbursement  
Integrated Health Services, Inc.  
The Highlands  
910 Ridgebrook Road  
Sparks, Maryland 21152

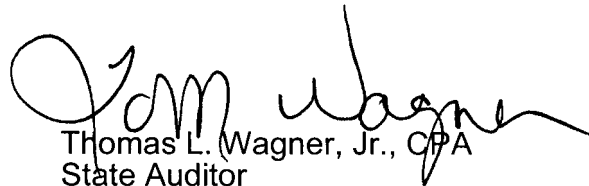
Re: AC# 3-MMP-J9 – Magnolia Place, Inc. at Spartanburg

Dear Ms. Disbro:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1998 through September 30, 1999. That report was used to set the rate covering the contract period beginning October 1, 2000.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/kss

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Mr. Joseph P. Hayes

**MAGNOLIA PLACE, INC. AT SPARTANBURG**

**SPARTANBURG, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 2000  
AC# 3-MMP-J9**

**AGREED-UPON PROCEDURES REPORT**

**ON CONTRACT**

**FOR**

**PURCHASE OF NURSING CARE SERVICES**

**WITH**

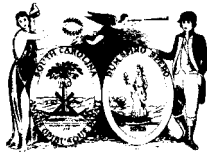
**STATE OF SOUTH CAROLINA**

**DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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# State of South Carolina



## Office of the State Auditor

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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 27, 2003

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Magnolia Place, Inc. at Spartanburg, for the contract period beginning October 1, 2000, and for the twelve month cost report period ended September 30, 1999, as set forth in the accompanying schedules. The management of Magnolia Place, Inc. at Spartanburg is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

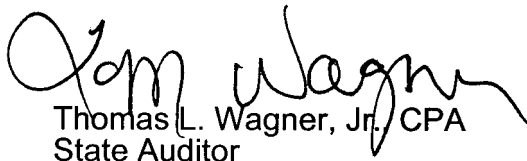
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Magnolia Place, Inc. at Spartanburg, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Magnolia Place, Inc. at Spartanburg dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
February 27, 2003

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

**MAGNOLIA PLACE, INC. AT SPARTANBURG**

Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2000  
AC# 3-MMP-J9

10/01/00-  
09/30/01

Interim Reimbursement Rate (1)	\$101.86
Adjusted Reimbursement Rate	<u>99.79</u>
Decrease in Reimbursement Rate	\$ <u><u>2.07</u></u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated January 25, 2002

**MAGNOLIA PLACE, INC. AT SPARTANBURG**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period October 1, 2000 Through September 30, 2001  
AC# 3-MMP-J9

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$49.84	\$50.22	
Dietary		9.47	10.56	
Laundry/Housekeeping/Maintenance		<u>9.06</u>	<u>9.12</u>	
Subtotal	\$ <u>1.53</u>	68.37	69.90	\$68.37
Administration & Medical Records	\$ <u>-</u>	<u>15.41</u>	<u>11.20</u>	<u>11.20</u>
Subtotal		83.78	<u>\$81.10</u>	79.57
<u>Costs Not Subject to Standards:</u>				
Utilities		1.97		1.97
Special Services		.27		.27
Medical Supplies & Oxygen		3.71		3.71
Taxes and Insurance		1.26		1.26
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$90.99</u>		86.78
Inflation Factor (3.20%)				2.78
Cost of Capital				7.30
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				1.53
Effect of \$1.75 Cap on Cost/Profit Incentives				-
Nurse Aide Staffing Add-On 10/01/2000				1.07
Nurse Aide Staffing Add-On 10/01/1999				<u>.33</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$99.79</u>

**MAGNOLIA PLACE, INC. AT SPARTANBURG**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1999  
AC# 3-MMP-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$1,590,196	\$11,650 (4) 1,571 (5)	\$12,931 (3) 10,652 (3) 929 (4)	\$1,578,905
Dietary	298,284	1,830 (4)	-	300,114
Laundry	107,443	-	-	107,443
Housekeeping	104,665	-	-	104,665
Maintenance	74,425	372 (4)	-	74,797
Administration & Medical Records	415,054	10,652 (3) 12,931 (3) 9,192 (4) 2,721 (4) 69,023 (5)	31,308 (2)	488,265
Utilities	62,425	-	-	62,425
Special Services	29,759	2,104 (4) 48 (5)	6,970 (6) 16,369 (7)	8,572
Medical Supplies & Oxygen	117,722	-	324 (6)	117,398
Taxes and Insurance	39,922	-	-	39,922
Legal Fees	-	-	-	-



**MAGNOLIA PLACE, INC. AT SPARTANBURG**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1999  
AC# 3-MMP-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	274,282	2,201 (8) <u>7,163 (9)</u>	13,024 (1) <u>39,219 (5)</u>	231,403
Subtotal	3,114,177	131,458	131,726	3,113,909
Ancillary	82,609	-	-	82,609
Non-Allowable	162,816	13,024 (1) 31,308 (2) 7,294 (6) <u>16,369 (7)</u>	26,940 (4) 31,423 (5) 2,201 (8) <u>7,163 (9)</u>	163,084
Total Operating Expenses	<u>\$3,359,602</u>	<u>\$199,453</u>	<u>\$199,453</u>	<u>\$3,359,602</u>
Total Patient Days	<u>31,680</u>	<u>-</u>	<u>-</u>	<u>31,680</u>
TOTAL BEDS	<u>88</u>			

**MAGNOLIA PLACE, INC. AT SPARTANBURG**  
Adjustment Report  
Cost Report Period Ended September 30, 1999  
AC# 3-MMP-J9

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$35,953	
	Accumulated Depreciation	15,224	
	Nonallowable	13,024	
	Other Equity		\$51,177
	Cost of Capital		13,024
	To adjust fixed assets and related depreciation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
2	Nonallowable	31,308	
	Administration		31,308
	To remove rental payments on a capital lease		
	HIM-15-1, Section 110B		
3	Administration	10,652	
	Medical Records	12,931	
	Nursing		12,931
	Restorative		10,652
	To reclassify salaries to the proper cost center		
	DH&HS Expense Checklist		
4	Nursing	11,650	
	Dietary	1,830	
	Maintenance	372	
	Administration	9,192	
	Medical Records	2,721	
	Special Services	2,104	
	Restorative		929
	Nonallowable		26,940
	To adjust fringe benefits and related allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		

**MAGNOLIA PLACE, INC. AT SPARTANBURG**  
Adjustment Report  
Cost Report Period Ended September 30, 1999  
AC# 3-MMP-J9

ADJUSTMENT			
<u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nursing	1,571	
	Administration	69,023	
	Special Services	48	
	Cost of Capital		39,219
	Nonallowable		31,423
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
6	Nonallowable	7,294	
	Medical Supplies & Oxygen		324
	Special Services		6,970
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
7	Nonallowable	16,369	
	Special Services		16,369
	To adjust co-insurance for Medicare Part B services State Plan, Attachment 4.19D		
8	Cost of Capital	2,201	
	Nonallowable		2,201
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
9	Cost of Capital	7,163	
	Nonallowable		7,163
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$250,630</u>	<u>\$250,630</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**MAGNOLIA PLACE, INC. AT SPARTANBURG**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1999  
AC# 3-MMP-J9

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.3156</u>
Deemed Asset Value (Per Bed)	36,165
Number of Beds	<u>88</u>
Deemed Asset Value	3,182,520
Improvements Since 1981	156,134
Accumulated Depreciation at 9/30/99	<u>(631,521)</u>
Deemed Depreciated Value	2,707,133
Market Rate of Return	<u>.060</u>
Total Annual Return	162,428
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	162,428
Depreciation Expense (includes home office)	70,526
Amortization Expense	-
Capital Related Income Offsets (includes home office)	(1,551)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	231,403
Total Patient Days (Actual)	<u>31,680</u>
Cost of Capital Per Diem	\$ <u>7.30</u>

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